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TAGS: [EFIN](#) [EAID](#) [PREL](#) [ETRD](#) [PGOV](#) [AF](#)  
SUBJECT: AFGHAN FINANCE MINISTER NOTES PROGRESS  
ON FISCAL REFORMS TO DEPUTY SECRETARY LEW

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REFTEL: A) 09 Kabul 1029  
B) 09 Kabul 2682

¶1. (SBU) Summary: Finance Minister Omar Zakhilwal presented the progress the Afghan Government has made in its fiscal reform efforts, noting revenue collections have nearly doubled in 2009. The Ministry's revenue action plan and removal of underperforming staff have been key factors in this success. He also briefed Deputy Secretary Lew on a major government reorganization plan. Zakhilwal praised USG emphasis on sub-national governance and asked that the U.S. and other international donors directly channel more aid through the Finance Ministry. While admitting the serious challenge of corruption, he noted the Afghan Government had made progress and could responsibly utilize increased USG assistance provided through the Finance Ministry. Zakhilwal reiterated that Afghanistan remains committed to concluding a transit trade agreement with Pakistan, but asked for USG support against further Pakistani tariff increases. End Summary.

¶2. (SBU) Afghan Finance Minister Zakhilwal, responding to Deputy Secretary Lew's question about the current status of reform efforts, proudly noted a series of better-than-expected accomplishments. The Afghan Government nearly doubled revenue collection in 2009 and increased total revenue by eighty-four percent over the previous year's levels. Authorities collected a total of \$290 million in customs revenue between March and August, compared with \$145 million in the same period of 2008. The Minister described how had replaced ineffective Ministry staff and ordered investigation of complaints against staff members were fully investigated and action taken.

Restructuring to Increase GIROA's Presence Outside Kabul  
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¶3. (SBU) Zakhilwal expressed satisfaction with most of the GIROA's "civilian surge" paper, but commented it is not clear how assistance would be distributed and which GIROA agencies are included. He thanked the Deputy Secretary for USG commitment to creating 55 advisory positions in Afghan Government departments. The MOF is developing a restructuring plan and, after receiving President Karzai's approval, will present it soon to foreign ambassadors and United Nations Special Representative Kai Eide. The plan calls for going from 17 inter-ministerial committees (IMCs), originally designed to support implementation of the various Afghanistan National Development Strategy (ANDS) sector strategies, down to three clusters. This streamlined structure should boost effectiveness and focus in year two of the ANDS, he asserted. The three clusters will be: 1) Agriculture and Rural Development, (Agriculture, Rural Development, Water, Counter Narcotics, and Finance); 2) Human Resource Development (Education, Higher Education, Labor, Women's Affairs, Finance); and 3) Infrastructure and Economic Development (Commerce, Transportation, Public Works,

Power, Mines, Finance). The Ministry of Finance will oversee national coordination.

"We Must Acknowledge Progress on Corruption"

14. (SBU) Commenting that the USG wants to channel more development funding through Ministries and local governments, Deputy Secretary Lew said the ability to sustain reforms depends on transparency. Zakhilwal responded that 20 percent of Afghanistan's foreign aid now comes through the Ministry. Corruption remains a serious concern, but the levels have decreased from last year. The media makes it sound twice as bad as it is, and it is important to acknowledge progress. Zakhilwal said the Ministry's corruption hotline previously received two to five calls per day; now it receives only about one call a week. Financial managers are less susceptible to corruption than police officers, judges, and land managers, he maintained.

15. (SBU) The Minister noted that the International Monetary Fund concluded Afghan financial management stronger than most developing countries and that USAID auditors expressed satisfaction with the Ministry's balance sheets. Deputy Secretary Lew said the USG's ability to sustain financing depends on GIROA's sustained strong financial management. Zakhilwal, in turn, encouraged the Deputy Secretary to continue making aid conditional on reform.

Transit Trade: Progress and Roadblocks

16. (SBU) Deputy Secretary Lew stressed that the transit trade agreement remains a top USG priority, but the Government of Pakistan had asked to make the talks bilateral rather than trilateral. Zakhilwal described three outstanding issues: Pakistan's refusal to allow Afghan trucks direct access to the Wagah border crossing

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between India and Pakistan; Pakistan's distrust of third party monitoring; and punitive tariffs that have had a negative impact on Afghanistan's economy. He noted Pakistan had imposed eighteen-fold tariff increases on Afghan fruits and vegetables the preceding week (ref B) and asked the USG to press Pakistan on this issue. The Deputy Secretary said he had spoken to the Pakistani Foreign and Finance ministers while in Islamabad and that he would visit Torkham Gate crossing the following day where he would be able to see the situation first-hand. (Comment: upon leaving the meeting, the Deputy Commerce Minister called the new levies on Afghan produce "clearly designed to exploit vulnerable Afghan farmers and exporters" and an example of why the Pakistanis don't want the U.S. assistance monitoring progress between the two countries. End Comment.)

The Importance of Local Governance

17. (SBU) In response to a question by Ambassador Eikenberry on the ability of the District Development Plan to boost the capacity of local governments, Zakhilwal replied that district governments are unable to provide needed services, even though they understand local needs better than the central government. The Minister stated the Plan is the most important initiative in the country's stabilization.

HIPC and PRGF Moving Forward

18. (SBU) Zakhilwal asserted that Afghanistan, has met all conditions for full Heavily Indebted Poor Countries (HIPC) debt relief. He asked for U.S. support within the International Monetary Fund and World Bank to ensure Afghanistan quickly receives full HIPC status. He added that Afghanistan will complete an IMF Poverty Reduction and Growth Facility program in March 2010.

Participants:

U.S.:  
Deputy Secretary Lew  
Ambassador Eikenberry

Acting USAID Administrator Fulgham  
A/S Richard Verma  
Ambassador E. Anthony Wayne

Afghanistan:  
Minister of Finance Omar Zakhilwal  
Deputy Minister of Finance Gul Sabit

19. (U) This cable was cleared by D(L) staff subsequent to the delegation's departure.

EIKENBERRY